OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR
717 14TH STREET N.W., SUITE 900
WASHINGTON, D.C. 20005
TEL. 202-727-3600 • FAX: 202-724-8814

Deborah K. Nichols
District of Columbia Auditor
012:03:HA:LL:gk

Audit of the Public Service Commission Agency Fund for Fiscal Year 2001

September 17, 2003

EXECUTIVE SUMMARY

PURPOSE

Pursuant to D.C. Code, Section 34-912(a)(6) and Public Law 93-198, Section 455, the District of Columbia Auditor conducted an audit of the fiscal year 2001 financial activities of the Public Service Commission (PSC) Agency Fund.

CONCLUSION

The Auditor found that during fiscal year 2001 public utility assessments totaling $847,710.25 were deposited into the Public Service Commission's Agency Fund and recorded in the District's System of Accounting and Reporting (SOAR).

The Auditor also found that the Public Service Commission's fiscal year 2001 Trust Fund Reconciliation Report, which was submitted to the Mayor and Council of the District of Columbia, agreed with our finding that $847,710.25 in utility assessments were received by PSC and deposited into the Agency Fund in fiscal year 2001.

During fiscal year 2001, the Public Service Commission disbursed $499,944.32 from the Agency Fund for expenses related to ongoing case activity and refunded $18,353.33 to Verizon and various other telecommunications companies. The Auditor found that $499,944.32 in fiscal year 2001 expenditures processed against PSC's Agency Fund appeared to be for reasonable and necessary expenses as required by D.C. Code, Section 34-912. The Auditor successfully reconciled the expense vouchers and the refunds to the District's accounting system.

PURPOSE

Pursuant to D.C. Code, Section 34-912(a)(6) and Public Law 93-198, Section 455, the District of Columbia Auditor conducted an audit of the fiscal year 2001 financial activities of the Public Service Commission (PSC) Agency Fund.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to:

1. verify public utility revenue deposits to and disbursements from the PSC's Agency Fund for fiscal year 2001;

2. examine expenses charged against PSC's Agency Fund to determine whether expense vouchers were supported by adequate documentation and whether the expenses were reasonable and necessary as required by D.C. Code, Section 34-912;

3. determine whether expense vouchers were properly reviewed and approved by appropriate PSC officials before payment; and

4. determine the amount of refunds to public utilities that were processed against PSC's Agency Fund.

The audit covered PSC's Agency Fund receipts, disbursements, and refunds for fiscal year 2001.

To accomplish the audit objectives, the Auditor reviewed public utility deposits to PSC's Agency Fund and reconciled the deposits to the District's System of Accounting and Reporting (SOAR). SOAR reflects all financial activity processed against PSC's Agency Fund during fiscal year 2001. The audit team also reconciled deposits made to PSC's Agency Fund to confirmation statements provided by Potomac Electric Power Company (PEPCO), Washington Gas, and Verizon.

The audit team interviewed the PSC's chief financial officer and senior accounting and disbursing analyst, in addition to officials from PEPCO, Washington Gas, and Verizon concerning their deposits to PSC's Agency Fund.

The audit was performed in accordance with generally accepted governmental auditing standards and included such tests of the accounting records as were deemed necessary under the circumstances.

BACKGROUND

The District of Columbia Public Service Commission is an independent agency of the District government established by Congress in 1913 to regulate electric, gas, and telephone companies in the District by functioning as a quasi-judicial agency. Today, the mission of the PSC is to serve the public interest by ensuring that financially healthy electric, gas, and telecommunications companies provide safe, reliable, and quality utility services at reasonable rates to District of Columbia residential, business, and government consumers. The PSC has rate making and other regulatory authority over electric, gas, and telecommunications companies providing such services within the District of Columbia. The PSC is composed of a chairman and two Commissioners appointed by the Mayor with the advice and consent of the Council of the District of Columbia. Each Commissioner serves a four-year term of office and is compensated at the District Service salary for a grade 16.

The Public Service Commission functions with two budgets: the annual budget for day-to-day operations and the assessment budget (PSC's Agency Fund) for expenses related to specific cases. The annual budget covers the costs of staff salaries, fringe benefits, rent, utilities, supplies, printing, equipment and maintenance, training, and professional publications. Like other agencies, the PSC participates in the District's annual budget process. However, none of the monies expended by the PSC come from the District's general fund revenues. Instead, each public utility doing business in the District pays a pro rata share of PSC's annual operating budget based on a reimbursement formula prescribed by law. The PSC assesses utilities on a quarterly basis for reimbursement of its expenses.

In carrying out its mission, the PSC may award contracts for legal, accounting, economic, engineering, court reporting, courier, and advertising services. The costs for these services are fully reimbursed to PSC from revenue deposits made by PEPCO, Washington Gas, Verizon, and other utilities providing services in the District of Columbia.

The Public Service Commission sets public utility rates and otherwise regulates utilities through a formal legal process in which the affected public utility, the Office of the People's Counsel, and other interested parties have an opportunity to present their case. Each public utility is authorized to charge rates that will permit the utility to earn a fair rate of return (or profit) on its capital in exchange for the right to conduct business in the District of Columbia. Utilities must apply to the PSC for changes in rates or regulatory treatment.

D.C. Code, Section 34-912(a)(1), established the Public Service Commission's Agency Fund as a fiduciary fund in the District of Columbia Treasury. Section 34-912(a)(2) requires any public utility making application to the PSC to deposit sufficient dollars, as determined by the PSC, into the Agency Fund to cover PSC's reasonable and necessary expenses pertaining to the application. Revenue deposits must be used exclusively for the payment of expenses arising from any investigation, valuation, revaluation, or proceeding conducted by the PSC and all expenses of any litigation, including appeals arising from decisions, orders, or other actions of the PSC.

D.C. Code, Section 34-912(a)(7), requires the PSC to issue an annual report to the Mayor and Council of the District of Columbia. The annual report must detail the name of each contractor hired, their qualifications, a brief description of their work, the number of persons employed by each contractor, the hourly rate charged by each person employed by the contractor, and the estimated value of each contract. Each voucher for payment must include an affidavit signed by PSC's chief financial officer, or his/her designee, stating that the voucher was independently examined, including supporting documentation, and that the voucher was appropriate for payment in the stated amount.

D.C. Code, Section 34-912(a)(2), requires that any excess funds deposited by a public utility for a case that has been closed shall be refunded to the utility. PSC Agency Fund financial records must adequately reflect all refunds made to a utility and identify the formal cases for which revenue deposits were refunded.

FINDINGS

DEPOSITS TO AND EXPENDITURES AND REFUNDS FROM THE PUBLIC SERVICE COMMISSION AGENCY FUND FOR FISCAL YEAR 2001

As previously noted, D.C. Code, Section 34-912(a)(2), permits the Public Service Commission to assess utilities for regulatory and litigation expenses associated with retaining technical and legal consultants to perform work required by proceedings before the PSC. The utility assessments are deposited into the PSC Agency Fund.

Summary of Agency Fund Receipts, Expenditures, and Refunds for Fiscal Year 2001

Table I summarizes PSC's Agency Fund receipts, expenditures, and refunds for fiscal year 2001.

TABLE I
Public Service Commission's Agency Fund:
Statement of Receipts, Expenditures, and Refunds
For Fiscal Year Ending September 30, 2001

Beginning Balance (10/01/00)	$1,936,077.22
Receipts	847,710.25
Expenditures	(499,944.32)
Refunds to Utilities	(18,353.33)
Ending Balance (09/30/01)	**$2,265,489.82**

Source: Office of the D.C. Auditor

As of October 1, 2000, the beginning balance in PSC's Agency Fund was $1,936,077.22. Receipts of $847,710.25 less expenditures of $499,944.32, and $18,353.33 in refunds to the utilities resulted in an Agency Fund balance of $2,265,489.82. The ending balance is a reserve balance to be used for authorized expenses pertaining to ongoing case activity. Unexpended funds remaining after a formal case has been properly closed or terminated must be refunded to the appropriate public utility.

Fiscal Year 2001 Public Utility Assessments Deposited into PSC's Agency Fund

During fiscal year 2001, the PSC issued three Notices of Agency Fund Requirements orders. These orders, totaling $847,395, were issued to Washington Gas, PEPCO, Verizon, and Yipes Transmission, Inc. (Yipes). The audit team confirmed that the PSC received utility assessments pursuant to these orders as follows:

1.	Washington Gas	-	$452,395
2.	PEPCO	-	375,000
3.	Verizon	-	10,000
4.	Yipes	-	10,000
	TOTAL		**$847,395**

In addition to the $847,395 received pursuant to the three utility assessment orders issued in fiscal year 2001, PSC received $315.25 from United States Telecommunications, Inc. (UST) based on an order issued on September 25, 1998 that was not paid to PSC until April 2, 2001. PSC deposited the $315.25 into the Agency Fund account on April 5, 2001.

The Auditor found that PSC's fiscal year 2001 Trust Fund Reconciliation Report, which is submitted to the Mayor and Council of the District of Columbia, agreed with our finding that $847,710.25 in utility assessments were received by PSC and deposited into the Agency Fund in fiscal year 2001.

Table II presents fiscal year 2001 deposits made to PSC's Agency Fund. (See Appendix I for a brief description of each formal case.)

TABLE II
Public Utility Assessments Deposited Into
The Public Service Commission's Agency Fund
During Fiscal Year 2001

Public Utility	Formal Case Number	Amount of Deposit	Date PSC Received Check	Date of Deposit
WASHINGTON GAS	989	$452,395.00	7/3/01	7/5/01
PEPCO	991	375,000.00	5/7/01	5/9/01
VERIZON	TAC 12	10,000.00	8/6/01	8/10/01
MULTI-COMPANIES				
YIPES	TAC 12	10,000.00	8/2/01	8/10/01
UST	892	315.25	4/2/01	4/5/01
Grand Total Deposits		**$847,710.25**		

Source: Public Service Commission and the Office of the D.C. Auditor

Fiscal Year 2001 Expenditures Processed Against PSC's Agency Fund Appeared to be Reasonable and Necessary

During fiscal year 2001, the PSC processed 73 expense vouchers and journal entries totaling $499,944.32 against the PSC Agency Fund. The audit team successfully reconciled the $499,944.32 in expenditures to individual expense vouchers and the District's accounting system.

Approximately ninety-three percent (93%), or $463,214.05, of the total confirmed expenses paid by PSC during fiscal year 2001 were for professional services provided by attorneys, economists, engineer consultants, and certified public accountants. Seven percent (7%), or $36,730.27, of the confirmed expenses were for administrative costs including copying, telecommunications, delivery, and transportation services. PSC's Agency Fund expenditures appeared to be reasonable and necessary expenses as required by D.C. Code, Section 34-912. Further, each expense voucher was properly signed and approved for payment by an authorized PSC official.

Fiscal Year 2001 Refunds of Unexpended Assessments Processed Against PSC's Agency Fund

During fiscal year 2001, the PSC processed 41 refund vouchers totaling $18,353.33 against the PSC Agency Fund. The audit team successfully reconciled the $18,353.33 in refunds of unexpended assessments to individual vouchers and the District's accounting system. These refunds included: $9,419.60 to Verizon, and $8,933.73 to various other small telecommunications companies.

CONCLUSION

The Auditor found that during fiscal year 2001 public utility assessments totaling $847,710.25 were deposited into the Public Service Commission's Agency Fund and recorded in the District's System of Accounting and Reporting (SOAR).

The Auditor also found that the Public Service Commission's fiscal year 2001 Trust Fund Reconciliation Report, which was submitted to the Mayor and Council of the District of Columbia, agreed with our finding that $847,710.25 in utility assessments were received by PSC and deposited into the Agency Fund in fiscal year 2001.

During fiscal year 2001, the Public Service Commission disbursed $499,944.32 from the Agency Fund for expenses related to ongoing case activity and refunded $18,353.33 to Verizon and various other telecommunications companies. The Auditor found that $499,944.32 in fiscal year 2001 expenditures processed against PSC's Agency Fund appeared to be for reasonable and necessary expenses as required by D.C. Code, Section 34-912. The Auditor successfully reconciled the expense vouchers and the refunds to the District's accounting system.

Respectfully submitted,

Deborah K. Nichols
District of Columbia Auditor

AGENCY COMMENTS

AGENCY COMMENTS

On August 29, 2003, the Office of the District of Columbia Auditor submitted this report in draft for review and comment to the Chief Financial Officer of the Public Service Commission, the Chairperson of the Public Service Commission, and the District of Columbia Chief Financial Officer (CFO).

Written comments were received from the Chairperson of the Public Service Commission on September 10, 2003. Where appropriate, changes were made to the final report based upon the comments received. All written comments are appended, in their entirety, to the final report.

APPENDIX

APPENDIX I

Description of Formal Cases In Which Utilities Made Deposits to the Public Service Commission's Agency Fund During Fiscal Year 2001

Public Utility	Formal Case Number	Description of Case
WASHINGTON GAS	989	In the Matter of the Office of People's Counsel's Complaint for a Commission-Ordered Investigation into the Reasonableness of Washington Gas Light Company's Existing Rates
PEPCO	991	In the Matter of the Investigation into Explosions Occurring in or Around the Underground Distribution Systems of the Potomac Electric Power Company
YIPES VERIZON	TAC 12	In the Matter of the Petition of Yipes Transmission, Inc.'s for Arbitration Pursuant to Section 252(b) of the Telecommunications Act to Establish an Interconnection Agreement with Verizon Washington DC, Inc.
UST	892	In the Matter of the Application of United States Telecommunications, Inc. d/b/a Tel Com Plus to Provide Local Telecommunications Services in the District of Columbia